

A Plan for Pro-Consumer, Pro-Rural High-Cost Universal Service Reform

CTIA-The Wireless Association®

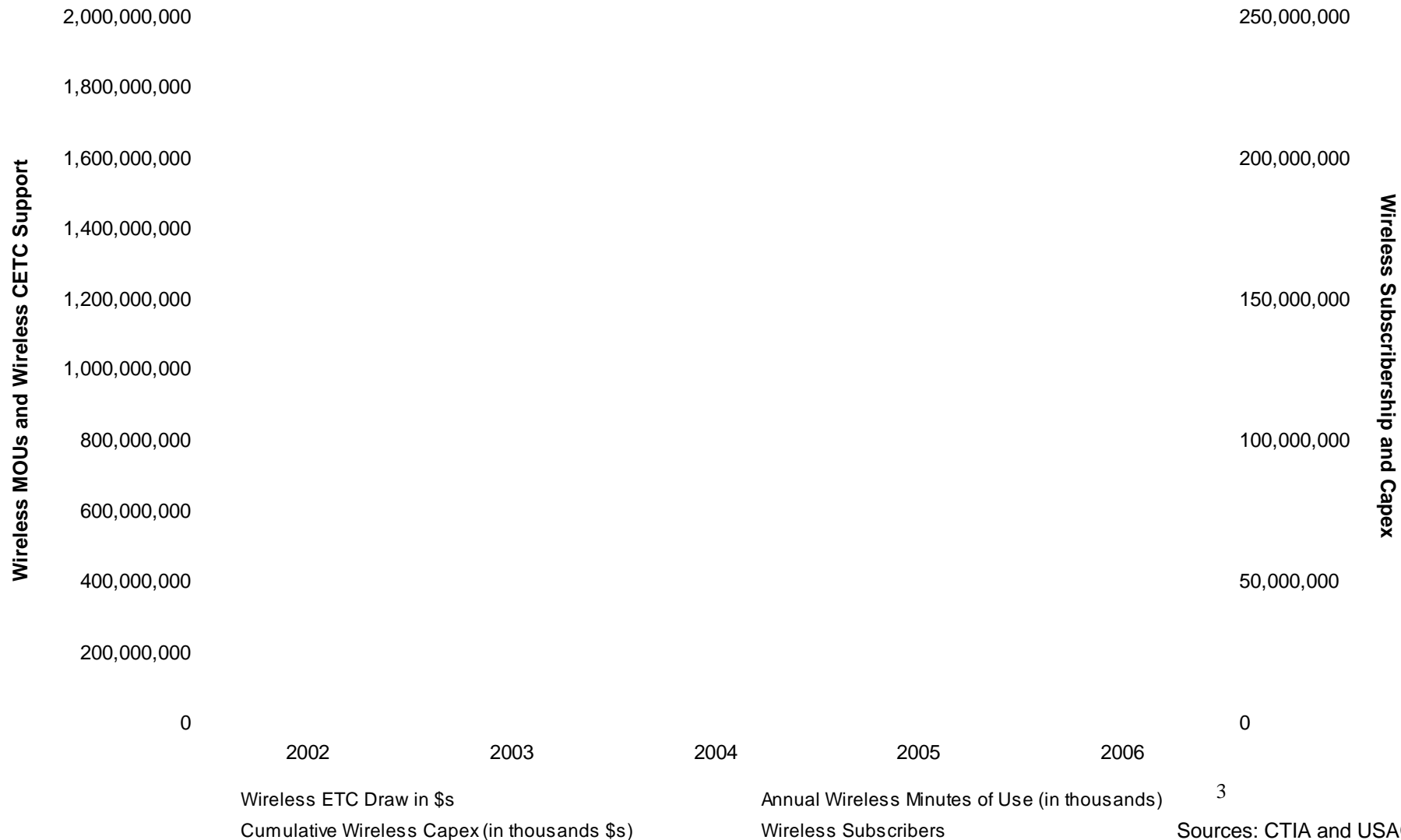
March 2007

It's About Consumers

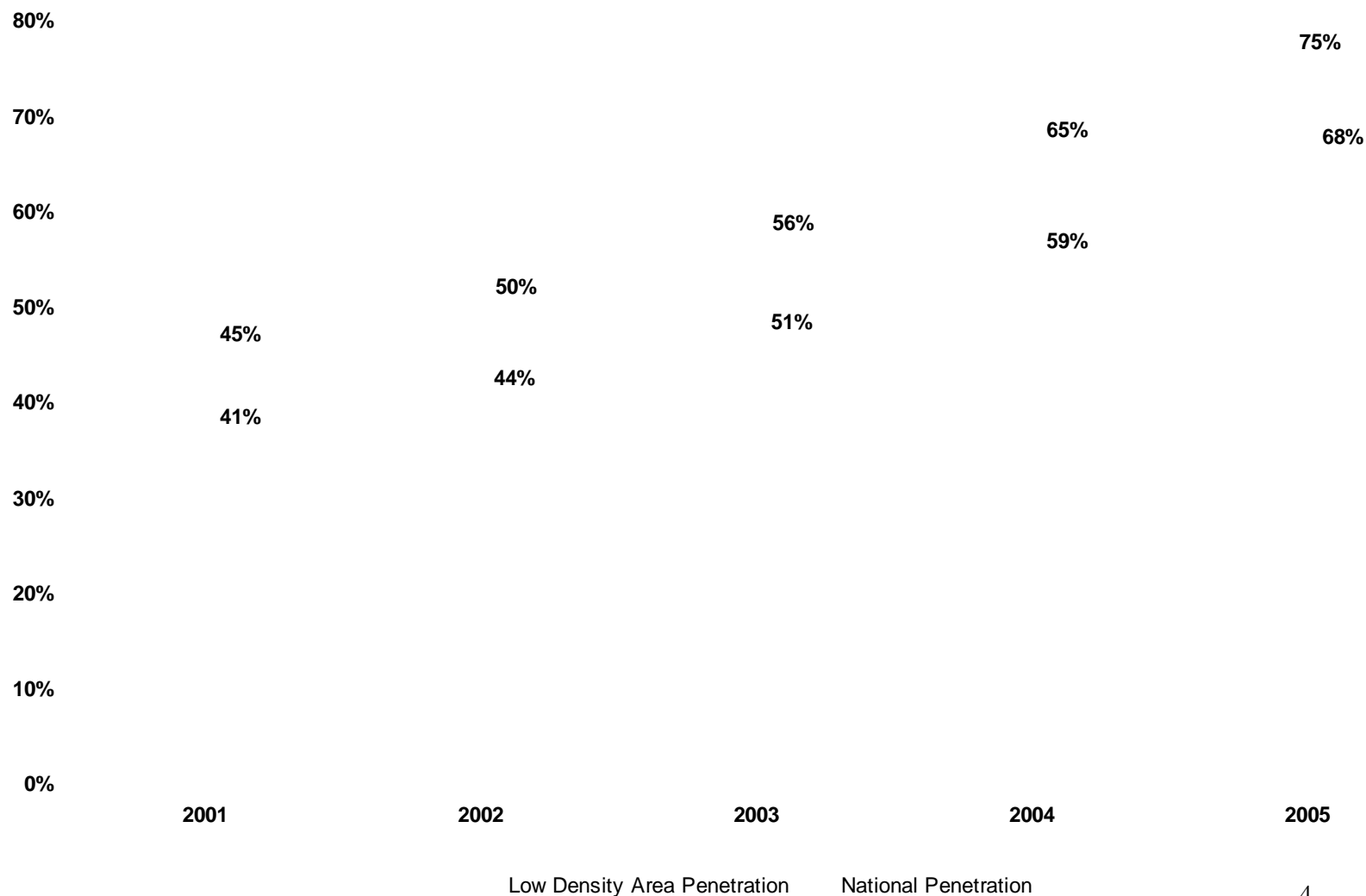
- Consumers are the only intended beneficiaries of universal service.
- Key Principles:
 - Universal Service Funding Should Be Driven By and Reflect Evolving and Exploding Consumer Demand For Broadband and Mobile Services
 - High-Cost Funding Should Be No Greater Than Necessary to Achieve Universal Service Goals
- Current Reality:
 - The Allocation of Federal Universal Service Funding Does Not Reflect Consumer Demand and Does Not Adequately Promote Efficient Investment in Broadband and Mobile Services
 - The Federal Universal Service Mechanisms Give Too Much to Some and Too Little to Others
- Solutions:
 - Short Term – Reduce and Cap the Fund
 - Medium Term – Transition to Unified, Market-Based Mechanism
 - Long Term – Reverse Auctions?

Concerns About Wireless USF Growth Overlook the Wireless Industry's Track Record

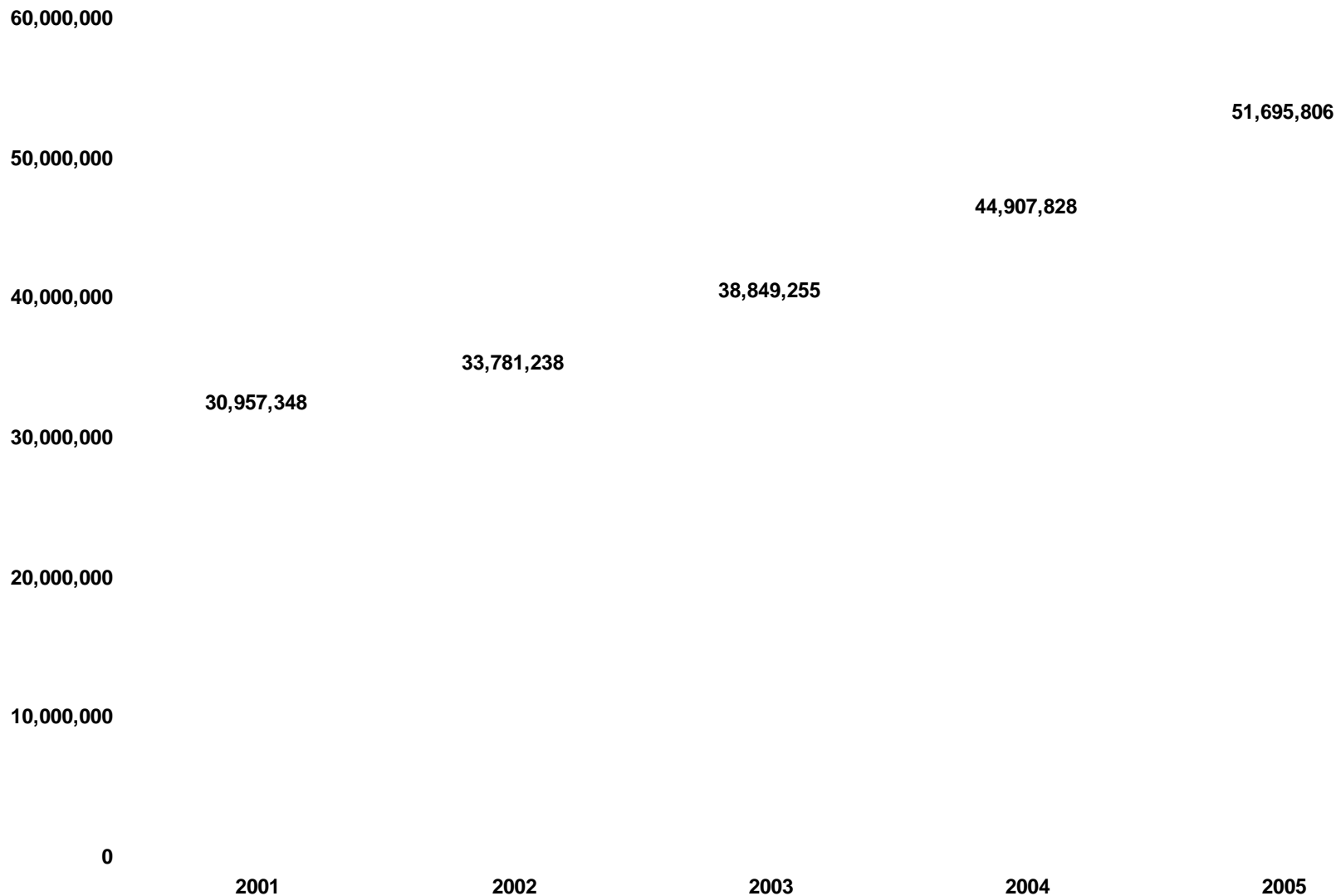
Comparing Wireless CETC USF Support and Wireless Industry Metrics' Trends



Rural and National Wireless Penetration: Rural Equated with Fewer than 100 Pops per Square Mile

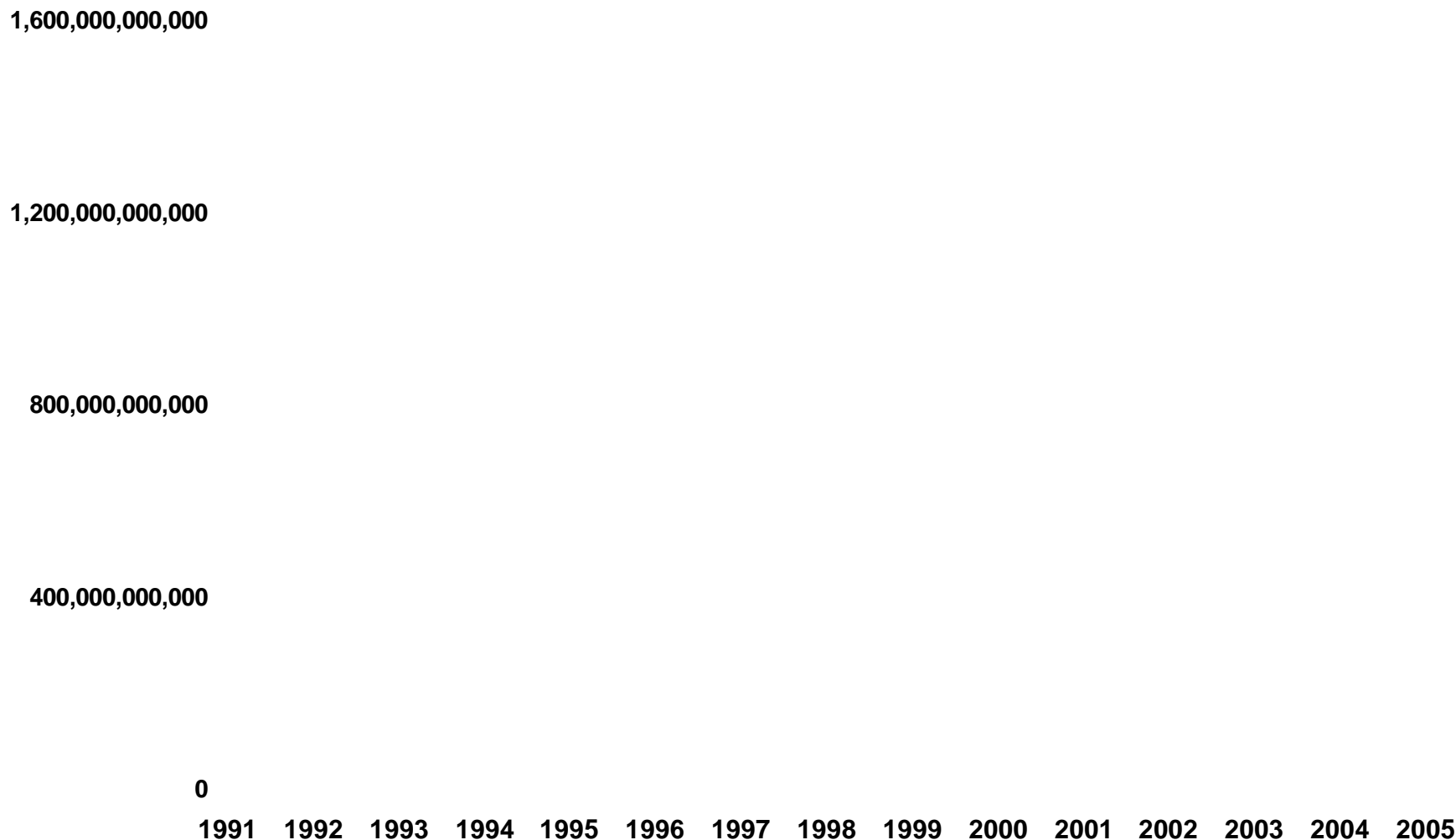


Total Estimated Rural Wireless Subscribership



Low Density Area Wireless Subscribership

Wireless Minutes of Use Have Consistently Climbed in Double-Digits Year-over-Year



The Growth of Wireless-only Households

- National Center for Health Statistics has been tracking the growth of wireless-only households over the past three years – including year-to-year trends, and the different distribution of such households across the country. As of Jan.-June 2006:
 - About 10.5% of households do not have a traditional landline telephone, but do have at least one wireless telephone. About 9.6% of all adults (21 million) and 8.6% of all children (>6 million) live in households with only wireless telephones.
 - Across all age groups, individuals living in poverty are more likely than higher income individuals to be living in households with only wireless telephones (15.8%).

The Growth of Intermodal Competition

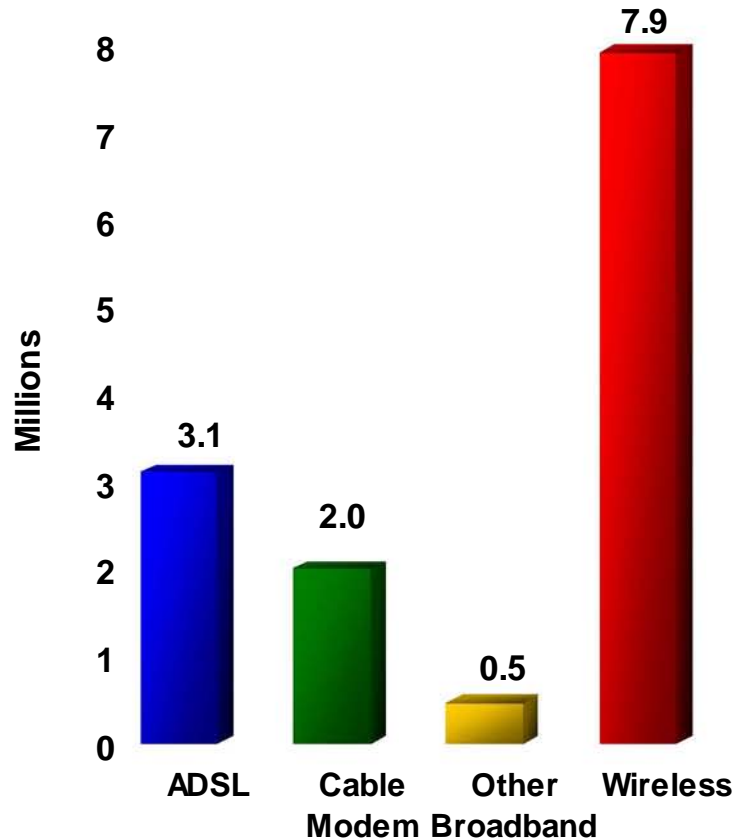
- If forced to choose, a majority of consumers would keep their wireless phone service instead of their landline phone service. This survey would not include the approximately 10.5% of households that have already chosen to be wireless only.
 - Question: "If you could keep one service, would you keep your cell phone service or your home landline phone service?"
- 70% of consumers surveyed support a greater portion of the universal service funding to help cell phone companies improve the quality of cell phone service in rural and high-cost areas, while only 16% oppose.
 - Question: "You are currently charged about \$1 a month for a "universal service" fee on landline phone bills and cell phone bills in part to enable telecom carriers to provide service in rural and other high-cost areas. About 75% of the funds currently go toward providing landline phone services. Would you support or oppose using a greater portion of the universal service funding to help cell phone companies improve the quality of cell phone service in rural and high-cost areas?"

Source: MyWireless.org® National Consumer Survey (conducted March 6-8, 2007).

High-Speed Line Growth

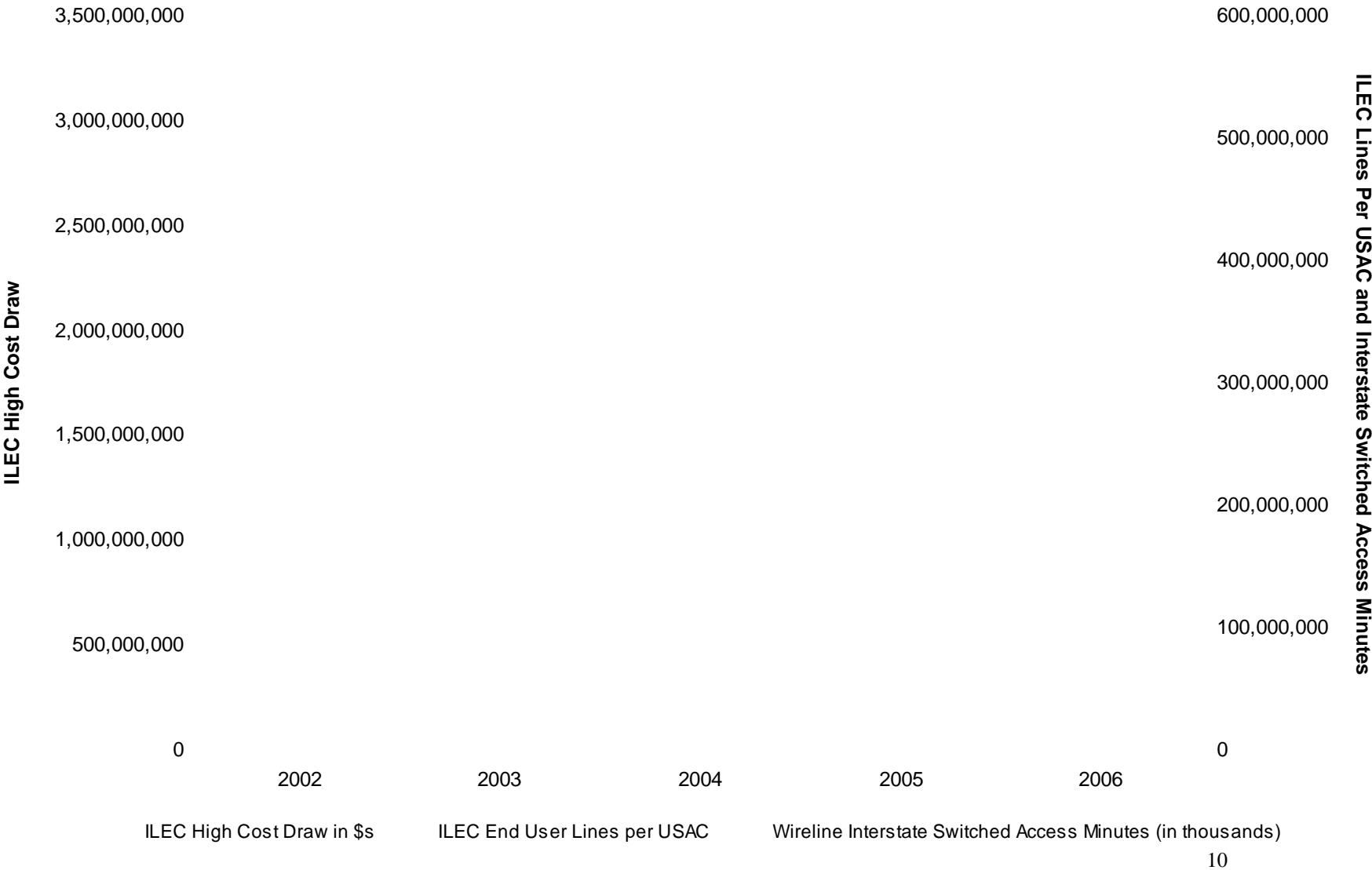
- In 1H06, total high-speed lines grew 26%, from 51.2 million to 64.6 million lines, and 59% of all adds were mobile wireless subscriptions.
- From June 2005 to June 2006:
 - ADSL's share of total broadband lines fell from 38% to 35%,
 - Cable modem's share fell from 56% to 44%.
 - Mobile wireless' share of total broadband lines rose from 1% to 17% of total broadband lines.
 - The share of "other" forms of broadband (including fixed wireless, satellite, fiber, and broadband over power line) remained at 4% of total broadband lines – although their total line count grew 39%.

High Speed Net Adds by Type, Dec. 2005 – June 2006



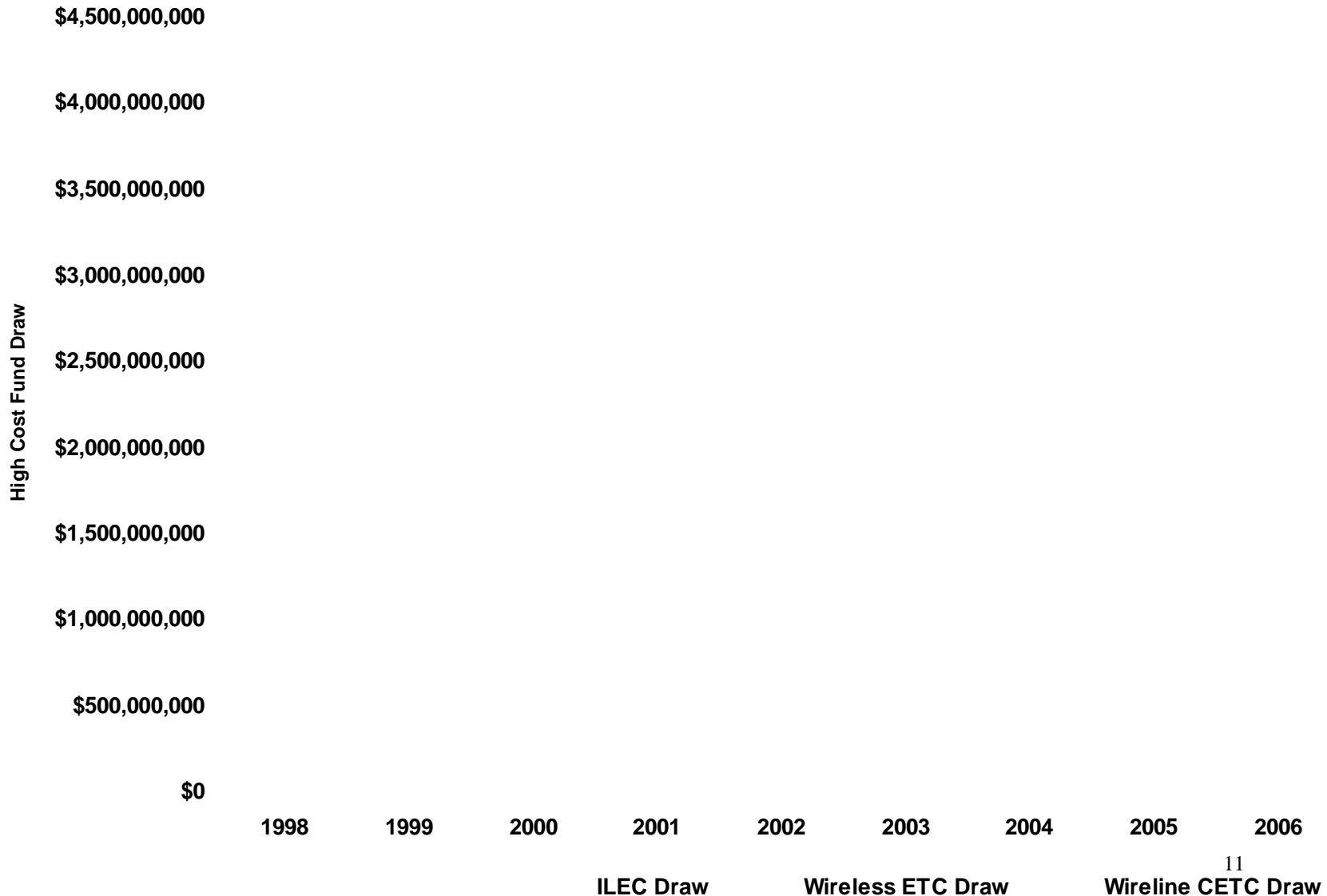
Sources: FCC Report on "High-Speed Services for Internet Access," Jan. 2007.

Comparing ILEC USF Support and ILEC Metrics



Sources: FCC NECA Data and USAC

But, the Distribution of High Cost Support Favors Wireline Incumbents



Wireless and Wireline Shares of Cumulative High Cost Support Drawn from the Federal Universal Service Fund: 1998 - 2005

ILEC Support
\$20,939,911,241
94.7 % of all High
Cost Support

Wireless ETC Support
\$1,115,001,219
5.0 % of all High Cost
Support

Wireline CETC Support
\$52,654,862
0.3 % of all High
Cost Support

Key Elements of Any High-Cost Universal Service Mechanism

- Promote and Reward Efficient Investment in Mobile and Broadband Services.
- Avoid Discriminatory Regulations that Distort the Market.

Universal Service Reform

- Should occur in stages:
 - Short Term (Implement between now and January '08):
 - Reduce the fund by making sure that all larger carriers and their competitors are subject to the same rules. Transition ILECs with $\geq 50,000$ access lines in a state (and their competitors) to model-based support; and
 - Establish a technology-neutral cap on high-cost support available in a particular service area. We oppose discriminatory, market-distorting separate wireless and wireline caps.
 - Medium Term (Implement January '09):
 - Transition remaining ILECs (and their competitors) to a single model-based support mechanism that accounts for rural differences; and
 - Perform reverse auction pilots.
 - Long Term (Implement January '11):
 - If pilots successful, rollout reverse auctions nationally.

Universal Service Reverse Auctions

- CTIA supports competitively- and technology-neutral reverse auctions to determine high-cost universal service support.
 - As the success of the wireless industry demonstrates, auctions are a proven method for allocating a limited resource.
 - Universal service auctions have worked well in other countries and can work in the United States.
 - If properly designed, reverse auctions can serve as a market-oriented means to place disciplines on the size of the universal service fund while still achieving important universal service goals.
- CTIA also continues to support other reforms to better target support and encourage and reward efficiency.
- Key elements to CTIA's support for reverse auctions:
 - The pool of eligible bidders must be maximized.
 - Wireless and wireline ETCs should compete in the same auction.
 - “Winner Gets More” auctions.*

* Only one “winner”, but “losers” eligible for some lesser amount of per-line support.